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Moscow's Money Mess

If you're depressed over the faltering American economy, here's some consolation: the Soviet Union is in far worse shape. At least this is the secret assessment of the Central Intelligence Agency.

The Kremlin's biggest headache is a sore lack of hard currency; that is, money that noncommunist countries will accept for goods the Soviets need. The ruble has never been accepted on the international money market, mainly because its value has always been set artificially at whatever the Kremlin decrees.

It's just play money, and the Soviets can't use it to buy the Western technology and agricultural products they desperately need. There are only two ways they can raise hard currency: borrow the money or sell something of value for dollars, West German marks or Swiss francs.

The only things the Russians have to sell are gold, oil and arms. And the market in all three commodities isn't what it used to be. Gold prices have been skidding, and the world oil glut has made it increasingly a buyer's market. Munitions customers are caught in the worldwide recession and can't see why they should pay hard cash for stuff they used to get dirt cheap and on credit.

Meanwhile, weather and wheat are deaf to Marxist dogma, and the Soviet Union has suffered three disastrous harvests in the past four years—with no great improvement in sight. So sell the Soviets must. In the second half of 1981, the Kremlin began unloading Soviet gold. But it was dumping it onto a declining market. Necessity had forced the Soviets—usually hardheaded capitalists in foreign trade—on a classic road to the poorhouse, selling low and forcing prices down still further.

Much the same thing happened with their oil sales. In 1979, when the Soviets sold oil after the bad 1978 harvest, prices were sky-high. They made a killing.

But by 1982, the oil glut had cut prices. Furthermore, the Russians didn't have much for export; their oil production has been leveling off, and what oil they do have is needed for themselves and their satellite customers.

In desperation, the Soviets siphoned off for export the oil that had been earmarked for their East European allies. They even sold some oil that had been intended for use in the Soviet Union itself. The drastic tactic worked; the Kremlin's hard-currency crisis was alleviated—but only temporarily. Now another bad harvest has left the Soviets short of grain again, and more oil will have to be sold at depressed world prices to buy food.

Hard times also loom ahead for the Soviet satellites, according to a secret CIA report shown to my associate, Dale Van Atta. The CIA analysts foresee a grim outlook for East Europe. "Faced with hard-currency constraints and potential Western credit restrictions, Moscow is trying to conserve foreign exchange, in part by reducing support to dependent allies and clients," the CIA notes.

For its East European allies, this means that Moscow has "reduced subsidized oil exports and adopted a tougher loan policy." For its clients in the Third World, the Soviet Union is going to be even more tight-fisted. It will be skimping on hard-currency projects and unwilling to undertake "major assistance efforts"—which in the past have been all that kept some Soviet client regimes afloat.

In these straitened circumstances, the best hope for countries in the Soviet orbit is their political or strategic value to the Kremlin. For example, Vietnamese leaders are known to be fearful of a Soviet-Chinese rapprochement, which would presumably dampen Moscow's enthusiasm for aid to their country.

In the secret report, the CIA acknowledged that the Soviets' hard-currency shortage has been reduced somewhat by these belt-tightening policies enforced on its allies and clients. But the report noted that "it almost certainly will increase problems in Moscow's bilateral relations with East European and Third World countries."